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**UNITED STATES TRADE REPRESENTATIVE**

_____	)	Non-Confidential: Business Confidential
In the Matter of	)	Information Contained in Brackets on
Certain Steel Products	)	Pages 3, 5, 8 Has Been Ranged or Deleted
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**REQUEST TO EXCLUDE PRODUCTS  
FROM IMPORT RELIEF UNDER SECTION 203**

**PRECISION TUBE TECHNOLOGY, INC.**  
**(Carbon and Alloy Hot Rolled Sheet and Strip including**  
**Pickled and Oiled Steel in Coils: ASTM A606 Type 4 Modified Steel)**

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**I. EXECUTIVE SUMMARY**

This Request for Exclusion is submitted to the United States Trade Representative, Trade Policy Staff Committee on behalf of Precision Tube Technology, Inc. (“Precision Tube”), a United States manufacturer of steel coiled tubular products from specially manufactured hot rolled pickled and oiled steel in coils imported from a foreign producer. As discussed herein, the U.S. domestic steel industry does not produce any hot rolled pickled and oiled steel that could meet Precision Tube’s technical requirements.

Precision Tube is concerned that any remedy that might be imposed by the President under Section 203 of the Trade Act of 1974 (“Section 203”), as amended,<sup>1</sup> in response to the International Trade Commission’s investigation of steel imports not affect its ability to import its specially produced steel alloy. Restrictions on its ability to access its only source of specialty steel alloy would be devastating to Precision Tube’s business and would cause

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<sup>1</sup> 19 U.S.C. § 2253.

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hardships on not only its customers but on its employees as well. Therefore, Precision Tube requests that any remedy exclude the specialty steel alloy it uses from restrictions on imports.

### **II. THE PRESIDENT SHOULD EXCLUDE HOT ROLLED PICKLED AND OILED A606 TYPE 4 MODIFIED STEEL ALLOY COILS FROM ANY REMEDY ISSUED PURSUANT TO SECTION 203**

#### **A. Factual Background**

Precision Tube is a U.S. manufacturer of continuously milled steel coiled tubing products that are primarily used in the oil and natural gas drilling and well servicing industry. Coiled tubing is milled as a single, continuous length of tube without joints or other connections, to specific customer requirements. These products are generally considered oil country tubular goods (“OCTG”). These continuously milled coiled tubing products allow drilling, well cleanout and other well servicing operations at extensive depths, 25,000 feet for example, in a fraction of the time other OCTG products would require due to the single continuous construction of Precision Tube’s tubular products. Given the strain and pressure forces placed on the tubular products when used in drilling and well servicing, and their continuous construction, Precision Tube manufactures these products to the highest level of quality, requiring that the material inputs, as well as the manufacturing process, result in a product that has no cracks, pinholes or other imperfections. Precision Tube’s customers of its specialty tubular products include Halliburton, B.J. Services Company, Baker Hughes, Inc., Cudd Pressure Control and Schlumberger, Inc. Forty percent of Precision Tube’s sales are to domestic clients, while sixty percent are export sales.

In order to produce these high quality products, Precision Tube must utilize a grade of hot rolled pickled and oiled coiled steel that meets its particular technical specifications.

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This is specially modified ASTM A606 Type 4 Modified steel.<sup>2</sup> It is not possible to utilize inferior grades of hot rolled coiled steel to produce Precision Tube's tubular products. Annually, Precision Tube requires approximately 12,000-15,000 tons of ASTM A606 Type 4 Modified steel to produce its products. Currently there are no US mills producing these ASTM A606 Type 4 Modified steel, hot rolled, pickled and oiled steel coils specially designed for continuously milled coiled tubing products that meet Precision Tube's requirements (hereinafter "A606 Modified steel"). Precision Tube is dependent on imports of A606 Modified steel coils from a mill in France owned by the Usinor Steel Corporation ("Usinor").<sup>3</sup>

The following charts show the past and prospective consumption of the A606 Modified steel in coils in the U.S.

**Total U.S. Consumption A606 Modified Steel<sup>4</sup>**

	1996	1997	1998	1999	2000
Volume (tons)	[10,000]	[10,000]	[10,000]	[10,000]	[15,000]
Value (millions)	[\$7.0]	[\$7.0]	[\$7.0]	[\$7.0]	[\$10.0]

**Projected U.S. Consumption A606 Modified Steel<sup>4</sup>**

	2001	2002	2003	2004	2005
Volume (tons)	[15,000]	[15,000]	[20,000]	[25,000]	[25,000]
Value (millions)	[\$10.0]	[\$10.0]	[\$15.0]	[\$15.0]	[\$20.0]

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<sup>2</sup> ASTM A606 Type 4 Modified steel is classified under HTSUS No. 7225.30.7000 and has been caught in Product Group No. 3 in the International Trade Commission's investigation of steel imports.

<sup>3</sup> In the Remedy Phase of International Trade Commission's 201 Investigation on steel imports, Usinor has requested the ASTM A606 steel, grades 70, 90, and 100 be excluded from the Commission remedy recommendation. Those grades of steel correspond to the grades of coiled tubing that Precision Tube produces, which are discussed herein.

<sup>4</sup> Given that Precision Tube is the only user of the A606 Modified steel that is the subject of this exclusion request, the above totals reflect Precision Tube's past and projected use of A606 Modified steel.

Precision Tube manufactures its tubular products at its facility located in Houston, Texas, which employs 140 people. Precision Tube employs another 17 people in small offices located in Canada and abroad. Annual revenues from the sales of these tubular products produced in Houston are approximately \$50,000,000.

**1. A606 Modified Steel is Not Interchangeable with Other Hot Rolled Steel in Coils**

A606 Modified steel is required for use as coiled tubing because of that steel's surface quality, cleanliness, corrosion resistance, high and low cycle fatigue resistance, and overall strength. These qualities are necessary to meet Precision Tube's production methods while providing the quality and grades of tubular products required by Precision Tube's customers. The standard ASTM A606 specification provides a platform on which Precision Tube Technology bases its product chemistries. From there, Precision Tube requires microalloying additions to the standard ASTM A606 chemistry to produce four different grades of coiled tubing: 70,000 psi, 80,000 psi, 90,000 psi and 110,000 psi minimum yield strength material. Other standards of hot rolled steel in coils, including other steel alloys that could come under the heading of hot rolled pickled and oiled steel, are not acceptable to make these tubular products.

In order to be used to produce these coiled tubular products, A606 Modified steel must have impeccable surface quality, a highly refined grain structure, consistent mechanical properties, and a tight control on all microalloying additions and impurities. Products sold by Precision Tube are operated at high pressure and are subject to cyclic bending fatigue in offshore and onshore environments. Failure to meet these criteria can result in premature failure of the

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tubing resulting in extreme safety and environmental hazards. A606 Modified steel coils provide the foundation to meet these quality requirements that other hot rolled coils do not provide.

Because it must impose demanding standards on the steel coils that it purchases, Precision Tube only purchases its steel from a mill that has been proven to produce A606 Modified steel in coils consistently to its required specifications. Qualifying an alternative supplier of the A606 Modified steel has been a difficult, expensive, time consuming, and unsuccessful process. Precision Tube's manufacturing processes have been refined over a ten-year period based on experience with the Usinor product and the development of a detailed material properties database containing more than 20,000 individual property tests. The material properties database is used to control critical parameters within the manufacturing process. Steel from a new supplier would require redevelopment of the material properties database with sufficient data to establish the confidence level required to insure the product quality that is necessary for coiled tubing products. Limited customer trials would be required after the manufacturing trials to gain customer confidence and acceptance and to qualify the long-term effects of repeated field operations. Precision Tube's experience to date suggests that this process would take a minimum 18 months before full implementation of an alternative supplier could be completed.

Because of its enhanced characteristics, A606 Modified steel commands a significantly higher price. For example, over the last year, standard (*i.e.* A607) hot rolled steel in coils has been selling for approximately \$25.50/100 lbs. During this same time, Precision Tube has been paying over [\$35.00]/100 lbs. for A606 Modified steel in coils and in some instances over [\$45.00]/100 lbs. for some higher strength grades.

**2. No Domestic Mills, and Only One Foreign Mill Produces A606 Modified Steel Coils to Precision Tube's Specifications**

As discussed above, given the rigorous specifications that Precision Tube requires of the hot rolled pickled and oiled steel in coils that it purchases, there has been only one foreign producer who has been willing and able to produce the A606 Modified steel – Usinor. No U.S. mills have been willing or able to produce the A606 Modified steel to Precision Tube's specifications.

Precision Tube has tried obtaining A606 Modified steel in coils from many domestic suppliers, including Bethlehem Steel, Acme Steel, and Nucor Steel. These efforts required a great deal of financial commitment on behalf of Precision Tube as well as qualification testing using Precision Tube's manufacturing process. However, at the end of each of these efforts, these companies showed little or no interest, and/or ability, in producing A606 Modified steel that consistently would meet Precision Tube's specifications. Similarly, other foreign steel producers such as Sumitomo, and Hylsa have been unable or unwilling to produce A606 Modified to meet Precision Tube's specifications.

Usinor has been the only steel producer that has taken the time, over 10 years, and the effort to understand the details of Precision Tube's needs in order to meet its exacting steel alloy specifications. It is because of this commitment to meeting Precision Tube's product needs that Precision Tube has continued to purchase its steel from Usinor.

**3. Quality and Availability, Not Price, are the Primary Factors Determining Precision Tube's Purchases**

Because of Precision Tube's exacting specifications for the steel alloy it uses and the inability (or lack of interest) of other mills to meet these specifications, Precision Tube's operations are dependent on obtaining A606 Modified steel in coils from Usinor. Because there is no effective competition in the market for the type of steel alloy that Precision Tube requires,



it cannot be argued that Usinor's price in some way undercuts domestic producers' sales. *There are no domestic producers or domestic sales of the A606 Modified steel that would meet Precision Tube's requirements.*

Given that this marketplace consists of only one producer, located in France, any remedy that the President may impose on hot rolled steel, that would be imposed on A606 Modified steel, unless excluded, would do nothing to change Precision Tube's options for buying steel. Simply, if Precision Tube is unable to access A606 Modified steel from Usinor, at a commercially practical price, it will be left in the situation of having no producer of its steel alloy *and will therefore be unable to continue production of its tubular product in the U.S.*

**4. Tubular Products, if Manufactured Outside of the U.S. With A606 Modified Steel and Imported Into the U.S., Would Not be Subject to a Remedy in This Investigation**

As previously noted, Precision Tube's products are used in the oil and natural gas drilling and well servicing industries and are classified as oil country tubular goods. While Precision Tube currently makes these products in the United States, it would be possible for Precision Tube, in conjunction with a U.K. company, to make its products at a facility in the U.K. using A606 Modified steel in coils. If this were to be done, and Precision Tube were to export its current sales of the products from the U.K. to the U.S., instead of being sold domestically in the United States, then the imported version of the tubular product would not be subject to *any* import remedy as a welded or seamless OCTG, given the International Trade Commission's recent negative injury finding on imports of those OCTG products.

Thus, by not excluding the A606 Modified steel in coils from the ultimate remedy imposed against imports from the general category of hot rolled steel in coils, the President would effectively be damaging the domestic sale of OCTG as well as U.S. exports of OCTG (with negative consequences on the U.S.'s balance of trade in steel products). And in turn,

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depending on the remedy imposed by the President, it may no longer be commercially practical for Precision Tube to continue to produce the tubular product (an OCTG item) in the U.S. instead of working with a foreign company to produce its tubular products in the U.K. Accordingly, if the A606 Modified steel that makes up Precision Tube's tubular products is included in the remedy, the outcome of this proceeding would result in the unintended consequence that U.S.-produced seamless or welded OCTG items would suffer more harm from the Section 203 remedy than would imports of OCTG items.

### 5. Terms of Requested Exclusion for A606 Modified Steel

Precision Tube respectfully requests that the President exclude A606 Modified steel from any import restrictions imposed as relief under Section 203 for imports of foreign-produced steel. ASTM A606 Modified steel coils, hot rolled, pickled and oiled for continuously milled coiled tubing products must meet the following specifications by having the listed chemical, mechanical, and physical properties:

#### Chemical Properties:

	C	Mn	P	S	Si	Cr	Cu	Ni	V	Mo	Fe
Min.	[0.10]	[0.50]	[NA]	[NA]	[0.20]	[0.45]	[NA]	[NA]	[NA]	[NA]	[BAL]
Max	[0.20]	[1.00]	[0.10]	[0.01]	[0.50]	[0.70]	[0.40]	[0.30]	[0.02]	[0.50]	[BAL]

#### Mechanical Properties:

[55,000 psi. to 100,000 psi Yield Strength]  
[75,000 psi. to 125,000 psi Tensile Strength]  
[20% Minimum Elongation]

#### Dimensional Properties:

Min. 25,000 lbs. original master coil weight

### B. Argument

As described above, Precision Tube has demonstrated that the U.S. domestic steel producers do not make the A606 Modified steel that Precision Tube requires to produce its

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particular specialized tubular products. Because of the absence of a domestic supply of A606 Modified steel, Precision Tube must rely on imports from the one foreign producer, Usinor, that is willing and able to meet Precision Tube's needs for A606 Modified steel. Precision Tube's choice of these imports has not been caused by price competition (no domestic market exists for these imports to compete with), and these imports do not harm the U.S. domestic steel producers which would require an import relief remedy.

In making any remedy determination pursuant to Section 203 (whether for increased duty, tariff quotas or quantitative restrictions), the President must, among other factors, consider the interests of U.S. customers and the impact the remedy will have on the economy. Not only does Precision Tube depend on the imports of A606 Modified steel from Usinor, but so do Precision Tube's customers of the tubular products. One result of any tariff or quota placed on imports of A606 Modified steel will be a reduction in Precision Tube's production and/or an unjustifiable increase in the price of the tubular products that will injure not only Precision Tube, but will injure the customers of its tubular products as well as the oil and gas drilling and well servicing operations that utilize these products. An alternate result of a remedy against A606 Modified steel in coils would be the eventual moving of Precision Tube's coiled tubing production to the U.K. and requiring U.S. customers to import into the U.S. what had previously been domestic sales of the tubular products. Not only would this diminish the U.S. domestic OCTG industry and its trade capacity in OCTG (including a loss of exports), but on a more individual level, this would result in the loss of U.S. jobs in the steel products industry. Such a result can not be the intended consequence of the investigation into imports of foreign steel or the goal of the safeguard measures that make up the U.S.'s trade policy tools.

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For the reasons stated above, Precision Tube respectfully urges that the President exclude A606 Modified steel in coils from any import relief restrictions.

### **III. CONCLUSION**

The underlying purpose of any remedy the President will devise pursuant to Section 203 is to provide relief for domestic industry that is being injured by imports of certain products. While the steel alloy that Precision Tube uses has been generally categorized under Product Group No. 3 of International Trade Commission's Section 201 investigation and thus could be subject to any remedies that the President imposes on imports of steel pursuant to Section 203, this particular steel alloy (*i.e.*, A606 Modified steel in coils) must be produced to specifications much more stringent than would be applied to standard grade hot rolled steel in coils. As discussed above, Precision Tube has been unable to locate a domestic supply of the specialty A606 Modified steel for the production of its tubular products. Given that there is no competing domestic industry, nor has domestic industry expressed any desire to compete for Precision Tube's business, there is no remedy needed against imports of A606 Modified steel. Instead, any remedy under Section 203 would likely only cause injury to Precision Tube and its customers.

Accordingly, the President should exclude imports of A606 Modified steel in coils from any remedies that he imposes against imports of other hot rolled steel in coils.

Respectfully submitted,  
/s/

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